The European Central Bank kept interest rates on hold today as the economic outlook worsens and Spain resists asking for a bailout that would open the door to ECB bond purchases.

Policy makers meeting in Frankfurt left the benchmark rate at its historic low of 0.75 percent, as predicted by 62 of 63 economists in a Bloomberg News survey. One forecast a cut to 0.5 percent. ECB President Mario Draghi will brief reporters on the decision at 2:30 p.m.

Draghi yesterday fueled speculation that the ECB might put rate reductions back on the agenda, saying the debt crisis is starting to hurt Germany -- the pillar of economic strength in the euro area -- and inflation risks are “very low.” Still, Draghi has acknowledged in the past that rate moves are less effective than they should be because distorted financial markets are interrupting the transmission of ECB policy.

“In normal times, with the economic outlook in Europe, a rate cut would probably be justified,” said Nick Kounis, head of macro research at ABN Amro Bank NV in Amsterdam. “But we’re not in normal times and a rate cut won’t achieve anything.”

The Bank of England today left its key interest rate at a record low of 0.5 percent and refrained from expanding its quantitative-easing program.

Spanish Reluctance

While the ECB’s pledge to buy government bonds has calmed markets and reduced borrowing costs in Spain and Italy, Spanish Prime Minister Mariano Rajoy is resisting making a request for aid from Europe’s bailout fund, a pre-requisite for the ECB to consider intervention.

Rajoy said on Nov. 6 he needs to know how much the ECB would push down Spain’s bond yields before his government applies for aid and signs up to the conditions attached.

“We fully expect Mr. Draghi to continue to emphasize that the decision on calling for help rests solely in the hands of the Spanish government,” said Nick Matthews, senior European economist at Nomura International Plc in London.

Spanish bond yields rose today after Market News International, citing unidentified Eurosystem and European Union officials, said the ECB hopes it doesn’t have to use its bond-purchase program and that Spain is unlikely to seek aid this year.

Spain’s 10-year yield climbed six basis points to 5.75 percent. It’s still down from 7.62 percent on July 24, two days before Draghi declared he would do whatever is needed to preserve the euro.

Euro-Area Recession

Economic confidence in the 17-member euro area fell to a three-year low in October, adding to signs that the region is in recession after gross domestic product shrank 0.2 percent in the second quarter. Third-quarter GDP is due on Nov. 15.

In Germany, Europe’s largest economy, reports this week suggested growth is grinding to a halt. Exports, factory orders and industrial production all fell more than forecast in September. Last month, business confidence dropped to a 2 1/2 year low.

“Germany has so far been largely insulated from some of the difficulties elsewhere in the euro area,” Draghi said at a conference in Frankfurt yesterday. “But the latest data suggest that these developments are now starting to affect the German economy.” In the euro area, “overall economic activity is weak and it is expected to remain weak in the near term,” he added.
In the past two weeks, the euro-area economy has taken a turn for the worse,” said David Kohl, deputy chief economist at Julius Baer Group in Frankfurt. “A rate cut is needed and sensible. The earlier it happens, the better.”

The European Commission yesterday lowered its 2013 growth forecast for Germany to 0.8 percent from 1.7 percent and said the euro-area economy will expand just 0.1 percent after contracting 0.4 percent this year.

At least five of the 17 euro nations are in recession, including Spain and Italy, and there are still concerns that Greece will be forced to leave the bloc as it struggles to meet the conditions of its bailout.

Greek Prime Minister Antonis Samaras yesterday gathered the support of enough lawmakers to pass austerity measures needed to unlock European funds, after more than 50,000 protestors surrounded Parliament.

Approval of the austerity bill, which raises the retirement age by two years to 67 and cuts wages and pensions a second time this year, is the first of the votes required by Nov. 12 to get a 31 billion-euro ($40 billion) aid tranche and avert a financial collapse that may drive the country from the euro.

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